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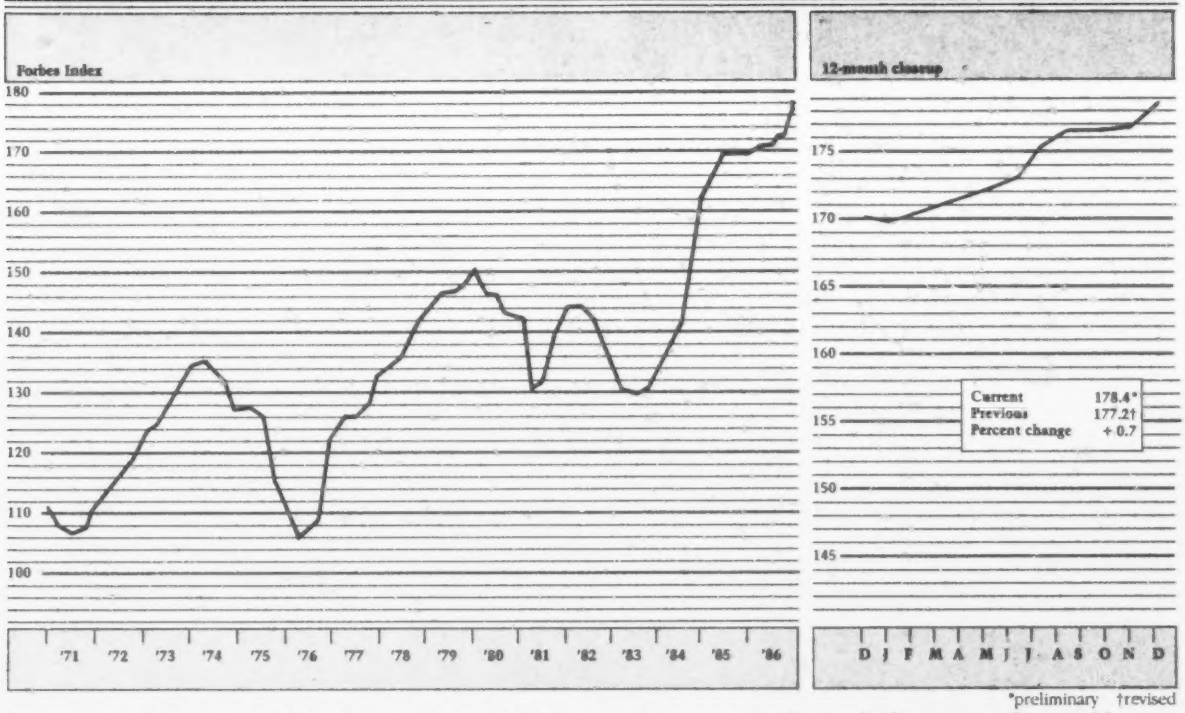
Cover illustration by Phil Huling

The Forbes Index



*preliminary †revised

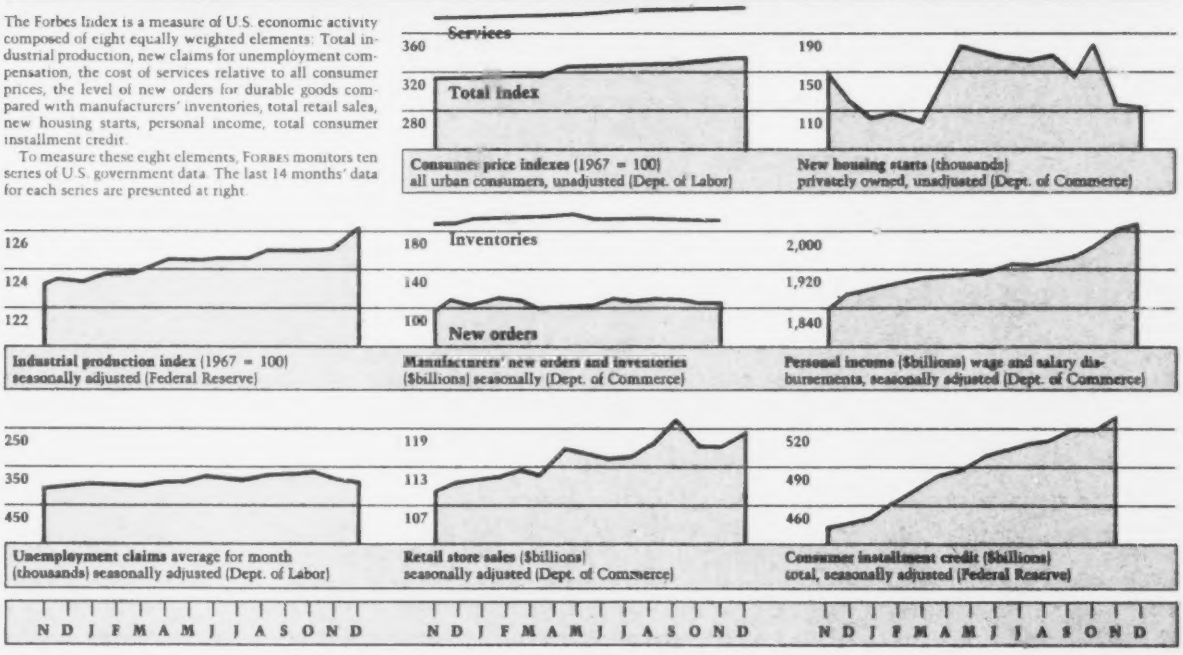
Here comes the sun. A 0.8% rise in wage and salary disbursements, after adjusting for inflation, was mainly responsible for a 0.7% increase in the Forbes Index. For the real wage gain thank, in large part, the slow movement in the Consumer Price Index, up a modest 0.25% from the previous month. If that kept up for a year, inflation would be only 3.0%.

Consumer spending, which accounts for roughly two-thirds of economic activity, went up 2% in December, the sharpest monthly increase in 11 years. A strong job market and low interest rates have consumers in a spending mood. But with consumer installment debt at a record 18.9% of aftertax income, that torrid pace cannot be sustained.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


Services
360
320
280
Total index
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
190
150
110
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
126
124
122
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180
140
100
Inventories
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
2,000
1,920
1,840
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
119
113
107
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
520
490
460
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D

Forbes

Rumpelstilzchen spun straw into gold. Last quarter dozens of leading businessmen spun past sins into current virtue.

Rumpelstilzchen accounting

By Ben Weberman

HAS STANDARD OIL CO. (Ohio) Chairman Alton W. Whitehouse been rereading the story of Rumpelstilzchen, who spun straw into gold? In Sohio's fourth-quarter 1985 report, just out, Whitehouse says that Sohio's profit ($379 million) "would have increased 11%" over 1984's fourth quarter—only it didn't. Why not? A little matter of a $1.15 billion writeoff. And what's a writeoff among friends? Just a paper entry. An "extraordinary" charge.

Or is it "just" a paper entry? In Sohio's case the writeoff is a confession that Sohio blew well over $1 billion of shareholders' money when it decided to acquire Kennecott, the big copper-mining company. Sohio paid $1.8 billion for Kennecott five years ago. Did its value fall by $1 billion in a single quarter? No. It was a bad deal from the beginning, overpriced and ill-timed.

Hold it: Doesn't this suggest that Sohio was actually overstating its earnings over those five years that the Kennecott investment was deteriorating? Certainly it was evident well before Dec. 31, 1985 that the acquisition was a bad mistake.

Sohio portrays the writeoff as a brave and virtuous step. "We've streamlined the company," explains Sohio spokesman John Andes. "It gets us in shape to deal with the market and proceed as a very healthy company into 1986."

Past sin into future virtue. Bad judgment into praiseworthy realism.

David Hawkins, a finance professor at the Harvard Business School, isn't impressed. "The writedowns are usually taken well after the events actually occurred," says Hawkins, "which makes you think you can't believe any of the numbers over the last few years."

Rumpelstilzchen accounting, also

Chas. B. Slackman

The big hit parade

Herewith, some of 1985's more memorable writeoffs. In a few cases, sudden business reverses may have been behind the sudden writeoffs. But, in most cases, managements were simply washing the decks.

Company	Writeoff 1985	Net income ($millions) 1984	Net income ($millions) 1985	Per share book value 1984	Per share writeoff 1985	Per share net 1985	recent stock price (as of 2/3/86)
Cigna Corp	$1,200.0	$ 100.0	NA	$62.79	$16.60	NA	65⅜
Sohio	1,150.0	1,488.0	$308.0	35.71	4.90	$1.31	47¼
Phillips Petroleum	342.0	810.0	418.0	14.28	1.23	1.44	10⅞
Unocal	250.0	704.0	325.1	32.78	2.54	2.36	24
Avon Products	223.0	181.7	–59.9	13.55	2.82	–0.76	27¼
Crown Zellerbach	196.5	86.9	–26.8	36.91	7.14	–1.56	43½
Gould	175.7	17.8	–175.7	19.59	3.58	–3.94	27⅛
Koppers	150.0	28.8	–101.1	19.31	5.51	–3.72	23⅜

NA: Not available.

known as Big Bath accounting, was used by dozens of businessmen in 1985's fourth quarter. It seemed a good time to take the hit. The stock market was strong enough to absorb the modestly bad news, and, besides, everyone was doing it.

Why do managers wait so long to take their medicine? Why are they so reluctant to write down assets on a regular basis? "Because it doesn't make them look like very good stewards of shareholders' interests," says a partner at Arthur Young & Co., who asked not to be identified, "particularly if they were the ones who said, 'Let's buy this business.' "

Avon Products' Chairman Hicks B. Waldron took the Big Bath. Waldron recently informed shareholders that he sold Avon's Mallinckrodt, Inc. division and booked a charge of $223 million in last year's fourth quarter. The charge washed fourth-quarter net income from $73.7 million in 1984 to a loss of $149 million in 1985.

Weren't Avon's pretax earnings then overstated by $223 million, up until the writedown? A reasonable question. But Waldron ignored that. Accentuating his "asset redeployment program," Waldron said he expected "earnings to improve steadily in 1986."

An immediate benefit, of course, of a Big Bath is to make your vital return on equity number look better. If you decrease the denominator faster than the numerator, the value of any fraction will grow to the sky.

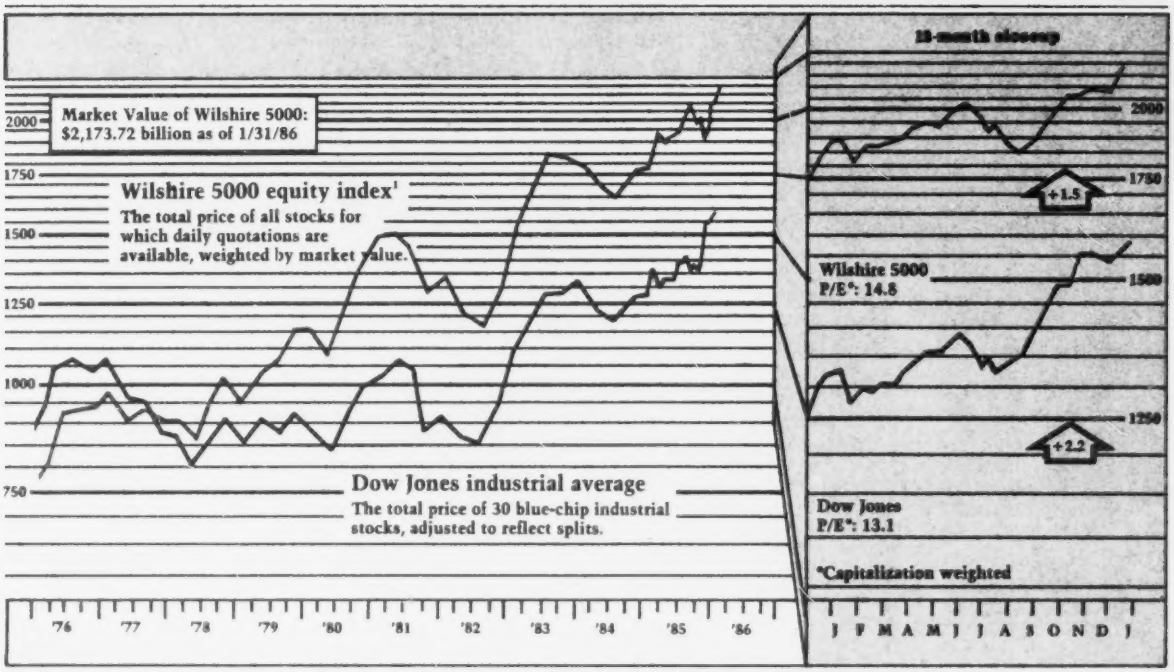
When T. Boone Pickens was chasing after Unocal, for example, Fred Hartley stoutly defended Unocal's shale oil investment. With Pickens out of the way, Hartley wrote the investment off in last year's fourth quarter, at a cost of $250 million. The beauty of Big Bath accounting is that you decide when to face the music.

A modest proposal: Let managements take their Big Baths subjectively, but make them take the charges against *future* earnings, rather than bunching them up in one quarter's accounts as a special item. Since management overstated past earnings, why not make them understate future earnings to compensate? This is not allowed under current accounting rules, but say this for such a proposal: It would make managements pay for their mistakes where it really hurts.

Nothing wrong with admitting mistakes, but don't expect investors to forget that many of these same managements were responsible for the bad judgment in the first place. ■

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Reality keeps pace with the market. In the last two weeks the 30 Dow industrial stocks rose another 2.2%, bringing the average to an alltime high. But over the same period the weighted average P/E multiple for Dow companies fell from 13.2 to 13.1. Reason: IBM reported fourth-quarter earnings, and for the 12 months ending in December, the company's earnings rose to $10.67 a share, compared with $9.86 for the 12 months ending in September. With $93 billion of stock outstanding, IBM carries the most weight in the average.

IBM was one of the first Dow companies to announce fourth-quarter results. The Institutional Brokers Estimate System, which compiles earnings forecasts from hundreds of security analysts, reports that overall earnings should improve as the remaining issues in the Dow average release December results. This means that, even if share prices continue to rise over the next several weeks, the multiple on the Dow should stay in the low teens.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	0.9	0.8	1.4	0.5	–1.6	3.1
in last 52 weeks	18.9	21.7	23.0	18.3	8.9	20.6

Stock performance based on six key investor yardsticks

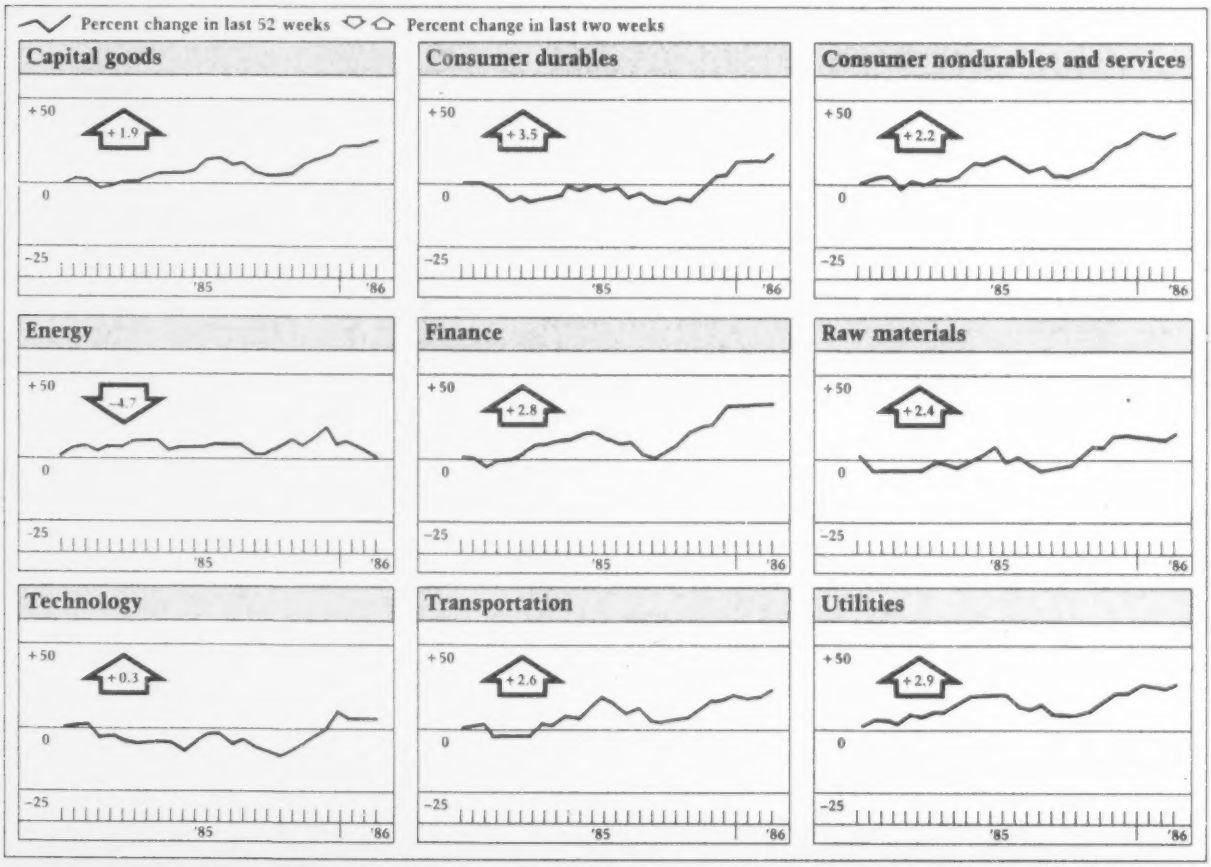
Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	1.8	7.2	5.5	2.3	2.3	3.6	1.2	6.0	4.5	3.0	2.6	5.7
in last 52 weeks	21.9	27.7	40.1	28.9	16.4	29.7	22.5	34.1	42.1	30.2	32.8	14.6

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created.
[2]Based on sales.
[3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 1/31/86. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

The bottomless oil pit. The rising tide on Wall Street, in which the Wilshire index rose 18.9% during the last 52 weeks, had been keeping the price of energy stocks barely above the surface. But no longer. In the past four weeks, as oil prices tumbled, the energy sector went under. A four-week decline of 7.4% for the group gives it a 1.8% loss on a 52-week basis. The Chapter 11 filing by Global Marine, a large offshore driller, reminded the market of the dangerous overleverage in some oilfield services stocks. Meanwhile, Atlantic Richfield, which announced a temporary suspension in its stock-buyback plan, took more than a 12% hit during the last ten trading days. Once again, it appears that investors looking for a bottom in oil shares will have to wait a little longer.



What The Analysts Think

Gambling on Motown. During the last two weeks analysts made slight upward adjustments in their 1986 earnings estimates for consumer durables. As a result, this group sells at only 8.4 times estimated earnings. The ratio runs between 3 and 7 for GM, Ford and Chrysler. Why so low? The battle against imports is far from over.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.15	13.8
1986 estimates	4.20	10.3
1987 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1986 EPS	Estimated 1986 P/E	% change in 1986 estimate in 2 weeks	% change in 1986 estimate in 4 weeks
1	Consumer durables	$ 4.39	8.4	% 0.34	% -0.03
2	Finance	3.88	9.6	-0.09	-0.07
3	Consumer nondurables	2.66	12.9	-0.13	-0.28
4	Utilities	3.38	8.5	-0.13	-0.19
5	Technology	2.93	12.7	-0.15	-0.37
6	Energy	3.48	7.8	-0.23	-0.77
7	Raw materials	2.33	12.5	-0.47	-0.61
8	Capital goods	2.84	12.7	-0.68	-1.17
9	Transportation	2.66	10.9	-2.16	-3.97

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/31/86. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.

The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

Big institutions finally had reason to celebrate. Their equity accounts beat the market in the fourth quarter of 1985. For all of 1985, however, the pros did worse than the market.

These conclusions emerge from the Trust Universe Comparison Service maintained by Santa Monica, Calif.-based Wilshire Associates. TUCS monitors 20% of the estimated $1.4 trillion total in U.S. pension assets. The institutional equity accounts tracked by TUCS had a median total return—dividends plus capital gains or losses—of 17.5% for the fourth quarter of 1985, while the total return on the Wilshire index of nearly 5,400 securities was 16.8%. But for all of 1985 the total return on the Wilshire index was 32.6% vs. a median gain of only 31.4% on institutional equity accounts. According to Dale Stevens, a vice president of Wilshire Associates, 60% of the equity managers did better than the Wilshire index in the fourth quarter of 1985. But for both 1985 and 1984 only 42% of the equity managers fared better than the market.

The corporate habit of draining money out of pension funds continued: Institutional assets shrank 8.5% in 1985. A 27% median total return for all kinds of managed investments in 1985 *(see chart at right)* made it easier for corporations to withdraw assets and reduce contributions.

Over the last quarter all segments except equity show larger withdrawals than contributions. Note: The "shift in holdings" is computed after backing out the effect of rises in stock and bond prices. Thus, a $100 million account that enjoyed a 10% return but ended the quarter at $105 million would count as a holding that shrank.

Some of the funds for equity investment came from reductions in cash and equivalents, down 5.7%. Nonetheless, a significant portion of last quarter's gain in stock prices came from institutions trading stocks among themselves and pushing up prices, rather than from an influx of new cash into the market.

The table below shows that growth managers had an exceptionally strong fourth quarter. This is in sharp contrast to third-quarter results, when growth managers suffered the largest losses. Growth managers now show the best 12-month performance but still lag over 24 months.

The P/E ratio for institutional portfolios continues to climb, to 13.8 vs. 13.0 one quarter earlier. Meanwhile, the median yield on managed funds dropped from 3.7% in the third quarter to 3.1% in the fourth quarter.

How different managers performed

Manager style	Total return: recent quarter	12 months	24 months
Diversified	15.8%	29.7%	16.3%
Growth	17.9	30.9	12.6
Growth—emerging	17.0	31.4	13.0
Market timer	14.4	25.9	12.7
Sector rotator	16.1	28.9	14.6
Value	16.3	30.1	19.3

Where the institutions put their money

Segment	Portfolio weighting: most recent quarter	previous quarter
Equity	56.6%	55.4%
Fixed income	29.8	29.4
Cash and equivalents	9.9	11.5
Convertibles	0.9	0.8
Other[1]	2.8	2.9

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	13.8	13.5
Dividend yield	3.1%	3.6%
Beta[2]	1.04	1.07
Price/sales	1.05	1.00
Price/book	1.93	1.77

Segment performance and cash flows

Segment	Most recent quarter: median total return	shift in institutional holdings	Latest 12 months: median total return	shift in institutional holdings
Equity	17.5%	1.0%	31.4%	–4.6%
Fixed income	6.9	–0.2	21.0	1.4
Cash equiv	2.0	–5.7	8.5	–12.6
Convertibles	10.1	–6.9	26.9	–5.9
Other[1]	1.3	–1.5	4.5	–5.9
Total	12.8	–2.2	27.0	–8.5

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
Philip Morris	8.3%	19.3%	Ford Motor	–7.3%	33.1%
Amoco Oil	4.6	–4.6	American Brands	–2.5	21.8
Chevron	3.8	4.7	IBM	–2.1	26.6
Wal-Mart Stores	2.1	33.7	Fed Dept Strs	–1.9	20.9
FPL Group	1.4	25.9	Atlantic Rchfld	–1.7	5.1
American Exp	1.3	28.5	Gen Motors	–1.4	10.2
USG	1.1	37.2	Hosp Corp Am	–1.2	–7.7
ITT	1.1	12.6	Schlumberger	–1.2	7.5
NWA	1.0	–4.0	Beatrice	–1.1	23.9
Gen Electric	1.0	27.7	Lockheed	–1.1	4.4

[1]Real estate, foreign investments, venture capital, guaranteed insurance contracts.
[2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the same rate as the S&P's 500.
Note: Data for quarter ending 12/31/85. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

Where the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
Security	% of institutional universe	% of Wilshire 5000	Security	% of institutional universe	% of Wilshire 5000
Digital Equipment	0.7%	0.4%	Exxon	0.7%	2.3%
Philip Morris	0.8	0.5	AT&T	0.4	1.3
American Express	0.8	0.5	IBM	3.6	4.4
McDonald's	0.6	0.3	Amoco	0.5	1.0
SmithKline Beckman	0.5	0.3	Royal Dutch Petroleum	0.5	1.0
Boeing	0.6	0.4	General Motors	0.8	1.2
Chrysler	0.4	0.2	EI du Pont de Nemours	0.4	0.8
Federal Express	0.3	0.1	BellSouth	0.3	0.7
Citicorp	0.5	0.3	Chevron	0.4	0.7
Syntex	0.3	0.1	Standard Oil of Ohio	0.3	0.6

Unload at the top. Institutions took advantage of the fourth-quarter rally to sell some issues that had above-market returns. Ford, for instance, had a total return of 33.1% but money managers reduced their positions by 7.3%. Did the experts goof? No. Ford is buying back shares and higher prices spurred institutions to take profits.

IBM, which hit a new high of 158¾ during the quarter, was the third most heavily sold issue. Beatrice, which is planning to go private, was sold by institutions that decided it wasn't worth the wait. *(See table, p. 134.)*

The table above shows that Amoco Oil and Chevron are among the most underweighted stocks relative to the Wilshire index—that is, these stocks are a bigger presence in the total Wilshire universe than they are right now in the institutions' portfolios. But during the last quarter institutions continued to buy these two oil stocks.

Sector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

Capital goods	4.0%	4.4%	Consumer durables	4.5%	5.6%	Consumer nondurables	29.2%	29.0%
	total return			total return			total return	
General Electric	27.7%		General Motors	10.2%		Philip Morris	19.3%	
Westinghouse Electric	19.1		Ford Motor	33.1		McDonald's	25.1	
Emerson Electric	17.8		Chrysler	31.2		SmithKline Beckman	19.5	
Caterpillar Tractor	19.1		RCA	44.5		Eastman Kodak	17.4	
Deere & Co	17.8		Goodyear Tire & Rubber	15.8		Sears, Roebuck	20.0	
Energy	**12.5%**	**12.8%**	**Finance**	**12.2%**	**11.2%**	**Raw materials**	**10.6%**	**10.3%**
	total return			total return			total return	
Exxon	8.1%		American Express	28.5%		Allied-Signal	6.4%	
Atlantic Richfield	5.1		Citicorp	23.4		EI du Pont de Nemours	19.7	
Royal Dutch Petroleum	0.8		Phibro-Salomon	24.2		Waste Management	23.9	
Schlumberger	7.5		American Intl Group	24.5		Dow Chemical	20.6	
Mobil	4.8		General Re	22.0		Monsanto	4.4	
Technology	**15.1%**	**14.8%**	**Transportation**	**3.2%**	**3.9%**	**Utilities**	**8.7%**	**8.0%**
	total return			total return			total return	
IBM	26.6%		Burlington Northern	9.5%		AT&T	22.8%	
Digital Equipment	22.3		Federal Express	38.2		Pacific Telesis Group	26.0	
Boeing	15.8		CSX	26.7		GTE	18.3	
Xerox	20.2		Norfolk Southern	20.7		Nynex	27.4	
NCR	22.2		AMR	6.8		Southwestern Bell	11.8	

MONEY & INVESTMENTS

Can a market letter turn you from a losing trader to a winning one? Probably not. But if all you need is discipline, a good market letter just might do the trick.

HELP FOR TRADERS

By Stanley W. Angrist

If the estimated number of commodity speculators who actually make money trading—thought to be around 20%—is anywhere close to accurate, then it's clear that traders need all the help they can get. And, of course, a new market letter appears almost every week to help solve the trader's profitability problem.

Are these newsletters any good? Bruce Babcock, with his *Commodity Traders Consumer Reports*, tries to help readers answer that question. Each year-end he presents a bushel of statistics that will help you decide if any of the market letters he monitors are for you. The accompanying table gives some of those statistics. (But as Babcock often points out, the numbers are not as important as finding a letter with an approach that fits your trading style.)

The first column shows the average profit per trade, the one number that probably provides the fairest way of comparing market letters. But this number does not take into account frequency of trading, the amount of margin used or commissions. And, as the second column shows, it is not necessary to have a high percentage of profitable trades in order to have a winning year.

It is highly unlikely that market letters will make you rich. The biggest increase in equity for the year went to the *Davis-Zweig Hotline*, with a gain in equity of about $35,000. This number was obtained by backing out any open profits existing at the beginning of 1985, then subtracting a charge of $130 per trade to cover slippage and commissions. (The argument might be made that this charge is too high, given the availability of discounters. But it makes the equity number a realistic one.) All calculations are on a one-contract-per-trade basis.

But traders must expect periods of poor trading. The maximum one-month drop in account equity is listed for each letter. In other words, how much adversity must you suffer in order to realize the equity increase shown? It can be considerable.

And last, the table shows how much the letter's recommendations actually return on margin. Several letters supplied recommendations that would have produced returns in excess of 90%. If you think a market letter can help, it would be advisable to subscribe to the *CTCR* (916-929-5308) to help you learn the characteristics of over 25 letters.

I don't believe the rally in gold for the following reasons: I see no signs of rekindled inflation, which is a necessary condition for a meaningful up move. I am not sure that the dollar will continue to weaken, which has provided some support to the market. Middle East tensions have been suggested as a factor helping to support the market. Such a state of stress has been with us for years. And the situation in South Africa is clearly more bullish for platinum than for gold.

One way to approach this situation is through a bear put spread, which involves buying an April 360 put/selling an April 340 put, for a net debit of around $8, or $800 per spread. The latter number is the most you can lose on the trade and is the amount of money you will have to put up to do it. The maximum profit is $1,200 and would be realized at any price under $340 for April gold. The upside break-even point is $352 per ounce.

High rollers might consider a ratio put spread. This trade could be put on by buying the April 360 put while selling two April 340 puts, for a net debit of $3.50 or $350 per spread. The maximum profit would be about $1,650; the margin around $2,300. At expiration, the upside break-even is about $358, while the downside break-even is about $324. Bail out of either position if the April futures cross either break-even price at any time. ■

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Advisory scorecard

The table shows the performance record for eight of the advisory services that are tracked by *CTCR*. Probably the best number to measure the profitability of their advice is the average profit per trade.

Market letter	Profit per trade, 1985	Winning trades	Net equity increase	Maximum drawdown	Return on margin
Davis-Zweig Hotline	$470	44%	$35,406	$18,654	93%
Bullish Consensus	410	51	13,730	9,702	102
Factor Report	298	38	7,661	3,758	92
Today's Comm Options	252	45	3,184	5,054	30
Accu Comm Hotline	223	63	5,786	4,972	37
Demark Futures Hotline	214	51	23,801	31,665	55
Tomorrow's Comm	209	48	1,262	12,030	11
Elliott Comm Letter	181	36	3,599	3,065	38

Downstreaming

It used to be that every $1 drop in the price of crude oil translated into a 2.5-cent drop in the retail price of a gallon of gasoline. Forget the rule, says Los Angeles' Daniel Lundberg, who has tracked gas prices for 30 years. Gas station ownership is more concentrated, and the majors must again rely on downstream refining and marketing operations as wellhead prices fall. "Nobody wants to lose his ass," says Lundberg of his belief that retail price wars are unlikely.

How to play falling crude prices and reasonably firm pump prices? Crude-poor refiners and marketers like Ashland Oil and Getty Petroleum have already zoomed. But some of the majors that must buy a lot of crude remain attractive.

Take Mobil. It produces 1.4 million barrels a day of crude (including crude it gets under participation agreements in the Middle East), but refines 1.6 million barrels a day *(see table)*. The balance it buys on the spot market or on contracts at "net-back" prices that allow the purchaser to lock in a refining margin. Bryan Jacoboski, Paine Webber Mitchell Hutchins' international oil analyst, notes that the Royal Dutch/Shell group is also quite adept at market purchases. So, to a lesser degree, in Jacoboski's opinion, is Exxon. Exxon and Royal Dutch combine the added attractions of high yields (7% and 5.3%, respectively) and fortress-like balance sheets.

Oil stocks to avoid? Arco and Phillips, replies Thomas Escott, Paine Webber's domestic oil analyst. Escott worries about their high debt loads. There's also the fact that much of Arco's production is accounted for by Alaskan crude. Any benefit Arco might derive from a new tax on imported oil could be offset by the heavy costs of producing Alaskan crude.—**Kathleen K. Wiegner**

Going for brokering

As mortgage rates come down—30-year fixed rates are now 10.5% with no points—home sales and mortgage refinancings are up. Among the biggest beneficiaries is Dallas' $273 million (fiscal 1985 revenues) Lomas & Nettleton Financial Corp., the country's largest mortgage broker. L&N originates mortgages, sells them to investors and acts as the investors' agent by servicing the mortgages. For this it is paid a fee of around 0.4% on the $20.2 billion in mortgages it services. Five-year average annual return on equity: 19.2%.

Recently 38⅝ on the New York Stock Exchange, L&N was selling at 12.9 times latest 12-month earnings. Not cheap, but L&N has just completed a capital spending program that cost nearly $5.40 per primary share during 1984 and 1985; spending should now drop back to well under $1 per share. Bruce Garrison of Houston's Lovett Mitchell Webb & Garrison notes that loan originations are up sharply in the current fiscal year, and that last year's purchase of Jefferson National, a life insurance company with $6 billion of life insurance in force, should boost earnings as L&N pushes insurance through its 105 offices around the country. Alex. Brown & Co.'s Roger Powell thinks L&N will earn $2.80 a share in fiscal 1986 (ending June 30), up from $2.42 a share last year. On such earnings potential, who needs those recent acquisition rumors?—**Rita Koselka**

A foxy play?

With first-tier stocks getting expensive, Robert Quasman, an analyst with Oppenheimer & Co., has a second-tier suggestion: Foxboro Corp., the $540 million (estimated 1985 revenues) manufacturer of control systems for chemical, oil and gas and paper companies that was a high-flier during OPEC's heyday. That Foxboro lost money last year and had to omit its dividend is all old news and fully discounted, says Quasman. While he isn't optimistic the firm can add new business, he argues that a weaker dollar will take up the slack; about 50% of Foxboro's sales is overseas. A recent cost-cutting campaign could push earnings as high as $1.50 per share this year. Debt, meanwhile, is just 5.3% of capital.

Quasman pegs the stock's downside in the low 20s and the upside north of 30 as earnings improve. Insiders own around 23% of the company's 12.3 million shares and might well consider cashing out if the company fails to improve earnings dramatically by year-end.—**Lisa Gubernick**

80-cent dollars

You're worried the market is too high but feel you have to buy something. Are there any cheapies left?

Thomas Herzfeld, Miami's closed-end fund maven, puts forth two nominees. The first is NYSE-traded ML Convertible Securities, Inc., the $259 million (net assets) fund launched last October by Merrill Lynch. Forget the preferred stock, which commands a 14.8% premium over net assets. Far better, Herzfeld contends, is the common. Recently 8¼ it sold at a 22.7% discount from net asset value. Why? Because of dashed expectations that the common would quickly go to a premium, and year-end tax-selling. The fund is a dual-purpose fund; assets will be liquidated in 1997, so investors won't have to suffer a discount forever.

Second candidate: the $47 million Baldwin Securities Corp., which is under new leadership. Recently 9⅞ on the Amex, Baldwin's 3.8 million

Who buys the crude?

Company	Production of crude and NGL (thousands of bbl daily)	Refinery run	% of self-sufficiency	Debt/equity	Recent price
Amoco	849.0	897	96%	25.3%	56⅞
Ashland	21.6	300	7	90.6	37½
Atlantic Richfield	713.2	741	96	78.3	52⅝
Exxon	2,400.0*	3,200	75	19.1	51¾
Mobil	1,400.0*	1,600	88	79.4	29⅝
Royal Dutch/Shell	1,600.0	3,300	49	RD 26.5 S 26.2	RD 62¼ S 37½
Standard Oil of Ohio	634.4	406	100	91.3	47¾
Unocal	251.8	351	72	146.3	23¾

*Includes amounts acquired under participation agreements with countries in the Middle East.